



OFFICE OF MANAGEMENT AND BUDGET


Douglas M. Duncan  
*County Executive*

Beverley K. Swaim-Staley  
*Director*

M E M O R A N D U M

April 6, 2004

TO: Interested Readers

FROM: Beverley K. Swaim-Staley, Director  
Office of Management and Budget 

SUBJECT: FY05-10 Fiscal Plan

**Executive Summary:**

In developing the FY05 Operating Budget, the County Executive emphasized the priorities of Education, Public Safety, and Transportation; addressed long term structural issues in the budget; and restored the County's tax supported reserves to the six percent policy level. However, several significant challenges lay ahead including rising medical costs, volatile equity markets, pre-funding retiree health benefits, and funding program improvements particularly in Education, Public Safety, and Transportation. In addition to these challenges, the State's continuing fiscal difficulties, and the uncertainty surrounding the manner in which the State will close its own budget gap will complicate the County's ability to plan for the FY05-10 period.

**Background:**

The enclosed displays and related data portray, in a single document, the recommended FY05-10 Fiscal Plans for the tax supported and non-tax supported funds of the agencies of County government. This material was initially published in the Recommended FY05 Capital Budget and the FY05-10 Capital Improvements Program (January 15, 2004) and the FY05-10 Recommended Public Services Program (March 15, 2004).<sup>1</sup> As in past years, this compilation is intended, in part, to assist the Council's Management and Fiscal Policy Committee to develop its recommendations on possible adjustments to the Spending Affordability Guidelines for the FY05 Operating Budget.

<sup>1</sup> In addition to these two documents, the reader is encouraged to review other County fiscal materials such as the Comprehensive Annual Financial Report for the year ended June 30, 2003; the Annual Information Statement published by the Department of Finance on January 22, 2004; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at [www.montgomerycountymd.gov](http://www.montgomerycountymd.gov).



Office of the Director

Mr. Duncan's fiscal policies remain unchanged: grow the local economy and tax base; obtain a fair share of State aid; maintain strong reserves; minimize the tax burden on citizens; and manage indebtedness and debt service very carefully. Again this year, these policies were recognized by the continuation by all major rating agencies of our coveted AAA credit rating, the highest possible.

### **Fiscal Plan for the Tax Supported Funds:**

The first section of the enclosed material covers those funds that are included under Spending Affordability Guidelines as provided in the County's Charter. Both the tax supported operating budgets and the tax supported CIP are included because of the inseparable links between them.

The recommended fiscal planning objectives for FY05-10 for the tax supported funds are:

- Adhere to fiscally sound policies.
- Assume maintenance of current tax rates.
- Maintain strong reserves including:
  - Maintain total tax supported reserves (operating margin and the Revenue Stabilization Fund) at 6.0 percent of total resources;
  - Consider the Revenue Stabilization Fund for discretionary additions (along with any mandatory increases from revenue growth beyond estimates);
  - Manage fund balances in the employee health insurance fund, property/casualty risk management fund, and other non-tax supported funds to established policy levels where applicable.
- Assume current State aid formulas but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
  - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
  - Give priority to capital investment that supports economic development/tax base growth.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent in all forms of multi-year financing (long-term bonds, shorter-term borrowing, and lease-backed revenue bonds) that must be accommodated within limited debt capacity.
- Maintain essential services. For example, in FY05, we adjusted the allocation of current revenues in the CIP for debt avoidance (PAYGO) by "withdrawing" over \$33 million (compared to the Executive's January 15, 2004 Capital Budget and FY05-10 Capital Improvements Program) and redirecting those funds to the Operating Budget.
- Limit the County's exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.

- For capital investment (CIP), allocate debt, current revenue, and other resources made available by the fiscal objectives above according to priorities established by policy and program agendas.
- For services, allocate resources consistent with policy and program agendas.

The major challenges for FY05-10 will be to contain ongoing costs, preserve essential services, and make improvements in other services including education, transportation, public safety, and homeland security. Cost containment challenges include rising compensation and benefit costs such as medical costs which impact both the County's employee and retiree health insurance contributions and workers' compensation costs.

#### **Fiscal Plans for the Non-Tax Supported Funds:**

By definition, each of the non-tax supported (fee supported) funds is independent, covering all operating and capital investment expenses from its dedicated revenue sources. Most of the non-tax supported funds of County agencies are included in the enclosed material. The fiscal health of each fund is satisfactory, though looking ahead some funds will need to meet expected challenges by rate adjustments and/or expenditure management decisions. Because fiscal planning objectives vary by fund, the County government with the County Council, is in the process of developing fund balance policies for each of the non-tax supported funds.

#### **Conclusion:**

Montgomery County's fiscal health is strong as a result of its underlying economy and the financial management policies endorsed by its elected officials. Nonetheless, we continue to face significant challenges in FY05 and the years ahead. The FY05-10 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are warmly encouraged as opportunities for improvement. OMB and Finance staff of the County government, and Finance staff of the other agencies, are available to assist in the Council's deliberations.

Interested Readers  
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Attachment: FY05-10 Fiscal Plan for Montgomery County, Maryland

cc: Douglas M. Duncan, County Executive  
Members, Montgomery County Council  
Bruce Romer, Chief Administrative Officer  
Dr. Jerry D. Weast, Superintendent, MCPS  
Dr. Charlene R. Nunley, President, Montgomery College  
Derick P. Berlage, Chair, Montgomery County Planning Board  
John Griffin, General Manager, WSSC  
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